

ANNUAL REPORT
OF
JURISDICTIONAL EARNINGS
BY
NORTHERN STATES POWER COMPANY,
A MINNESOTA CORPORATION
TO THE
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

FOR THE YEAR ENDING
DECEMBER 31, 2013

South Dakota Jurisdiction
Electric Utility



2013

CONTENTS

Electric Utility

| | | |
|-------------|--------------------------------|------------|
| I. | Return on Equity | E-1 |
| II. | Operating Income | E-2 |
| III. | Average Rate Base | E-3 |
| IV. | Cost of Capital | E-4 |
| V. | Required Rate of Return | E-5 |
| VI. | Revenue Deficiency | E-6 |
| | Addendum | E-7 |

Northern States Power Company

Electric Utility - South Dakota

(Dollars In Thousands)

I. RETURN ON EQUITY (ROE)

| <u>Actual Return on Equity (ROE)</u> | <u>2013</u> | <u>2012</u> | | | |
|--|-------------------------|-------------|-------|--|--|
| 1 Operating Income from Electric Operations (E-2): | \$26,477 | \$21,037 | | | |
| 2 Average Regulated Rate Base (E-3): | \$408,374 | \$379,473 | | | |
| 3 Rate of Return on Rate Base (ROR) (line 1 / line 2): | 6.48% | 5.54% | | | |
| 4 Weighted Cost of Debt (E-4): | 2.32% | 2.65% | | | |
| 5 Weighted Cost of Preferred Stock (E-4): | 0.00% | 0.00% | | | |
| 6 % of Equity in Capital Structure (E-4): | 53.86% | 53.81% | | | |
| 7 <table border="1" style="display: inline-table; vertical-align: middle;"><tr><td>Return on Equity (ROE):</td><td>7.73%</td><td>5.38%</td></tr></table> | Return on Equity (ROE): | 7.73% | 5.38% | | |
| Return on Equity (ROE): | 7.73% | 5.38% | | | |

| <u>ROE, Normalized for Weather Impact on Sales</u> | <u>2013</u> | <u>2012</u> | | | |
|--|--|-------------|-------|--|--|
| 8 Operating Income from Electric Operations: | \$26,477 | \$21,037 | | | |
| 9 Impact of weather on Mwh Sales: | 25,169 | 27,388 | | | |
| 10 Impact of weather on Electric Operating Income : | \$965 | \$1,035 | | | |
| 11 Weather-Normalized Operating Income: | \$25,512 | \$20,002 | | | |
| 12 Average Regulated Rate Base: | \$408,710 | \$379,473 | | | |
| 13 Weather-Normal Rate of Return on Rate Base (ROR): | 6.24% | 5.27% | | | |
| 14 <table border="1" style="display: inline-table; vertical-align: middle;"><tr><td>Weather-Normalized Return on Equity (ROE):</td><td>7.28%</td><td>4.86%</td></tr></table> | Weather-Normalized Return on Equity (ROE): | 7.28% | 4.86% | | |
| Weather-Normalized Return on Equity (ROE): | 7.28% | 4.86% | | | |

Northern States Power Company
Electric Utility - South Dakota

(Dollars In Thousands)

II. OPERATING INCOME

| <u>Line</u> | <u>Item</u> | <u>2013 Total NSP</u> | <u>2013 S.D. Juris.</u> | <u>2012 S.D. Juris.</u> | <u>Annual Change</u> |
|-----------------------------------|-----------------------------------|---------------------------|-----------------------------|-----------------------------|--------------------------|
| <u>Operating Revenues:</u> | | | | | |
| 1 | Residential | 1,189,825 | 84,086 | 74,152 | 13.4% |
| 2 | Small Comm. & Ind. | 1,410,310 | 88,331 | 78,355 | 12.7% |
| 3 | Large Comm. & Ind. | 687,036 | 25,428 | 22,548 | 12.8% |
| 4 | Public Street & Highway Ltg | 27,207 | 1,575 | 1,378 | 14.3% |
| 5 | Other Sales to Publ Auth | <u>9,007</u> | <u>3</u> | <u>3</u> | 0.0% |
| | Total Retail | 3,323,385 | 199,423 | 176,436 | 13.0% |
| 6 | Interdepartmental | 680 | 0 | 0 | * |
| 7 | Sales for Resale | 50,607 | 3,896 | 3,997 | -2.5% |
| 8 | Interchange Agreement | 452,572 | 27,107 | 26,740 | 1.4% |
| 9 | Other | <u>196,014</u> | <u>10,078</u> | <u>7,390</u> | <u>36.4%</u> |
| 10 | Total Revenues: | 4,023,258 | 240,504 | 214,563 | 12.1% |
| <u>Operating Expenses:</u> | | | | | |
| 11 | Production | 2,094,563 | 124,638 | 116,522 | 7.0% |
| 12 | Transmission | 244,340 | 14,964 | 12,953 | 15.5% |
| 13 | Distribution | 121,107 | 8,068 | 6,949 | 16.1% |
| 14 | Customer Billing | 55,250 | 3,789 | 3,596 | 5.4% |
| 15 | Customer Service | 84,843 | 1,226 | 1,005 | 22.0% |
| 16 | Sales & Marketing | 98 | 51 | 2 | 2450.0% |
| 17 | Admin. & General | 233,309 | 14,620 | 13,545 | 7.9% |
| 18 | Depreciation & Amortization | 416,097 | 24,855 | 21,975 | 13.1% |
| 19 | Property Taxes | 153,141 | 8,183 | 7,313 | 11.9% |
| 20 | Other General Taxes ¹ | 33,585 | 2,053 | 1,941 | 5.8% |
| 21 | Income Taxes | 75 | 0 | 0 | * |
| 22 | Deferred Income Taxes & ITC | <u>171,429</u> | <u>11,580</u> | <u>7,725</u> | <u>49.9%</u> |
| 23 | Total Expenses: | 3,607,837 | 214,027 | 193,526 | 10.6% |
| 24 | Regulated Operating Income | 415,421 | 26,477 | 21,037 | 25.9% |

¹ Includes payroll taxes.

Northern States Power Company

Electric Utility - South Dakota

(Dollars In Thousands)

III. AVERAGE RATE BASE

| <u>Line</u> | <u>Item</u> | <u>2013²</u> <u>Total NSP</u> | <u>2013²</u> <u>S.D. Juris.</u> | <u>2012²</u> <u>S.D. Juris.</u> | <u>Annual</u> <u>Change</u> |
|-------------|--------------------------------|---|---|---|--------------------------------|
| 1 | Plant in Service | 15,047,751 | 931,718 | 873,550 | 6.7% |
| 2 | Accumulated Depreciation | 7,239,241 | 442,997 | 423,062 | 4.7% |
| 3 | Net Plant in Service | 7,808,510 | 488,721 | 450,488 | 8.5% |
| 4 | Plant Held for Future Use | 0 | 0 | 0 | * |
| 5 | Construct Work in Progress | 0 | 0 | 0 | * |
| 6 | Materials and Supplies | 138,074 | 8,453 | 7,793 | 8.5% |
| 7 | Fuel Stocks | 86,478 | 5,053 | 5,256 | -3.9% |
| 8 | Prepayments & Other Rate Base | 126,506 | 10,850 | 9,465 | 14.6% |
| 9 | Customer Deposits | (2,920) | (178) | (202) | -11.9% |
| 10 | Cash Working Capital | 0 | 0 | 0 | * |
| 11 | Other Rate Base ¹ | 26,226 | 1,461 | 333 | 338.7% |
| 12 | Accum. Deferred Taxes | (1,678,471) | (105,986) | (93,660) | 13.2% |
| 13 | Total Other Rate Base | (1,304,107) | (80,347) | (71,015) | 13.1% |
| 14 | Total Average Rate Base | 6,504,403 | 408,374 | 379,473 | 7.6% |

¹ Includes deferred assets and liabilities such as accrued vacations, post-retirement medical benefits (FASB 106), post employment benefits (FASB 112), unfunded pension liability, environmental cleanup, severance accrual, etc.

² Average rate base is based on 13 monthly averages. This convention was used because of the close proximity of this report to the general rate case.

Northern States Power Company

Electric Utility - South Dakota

(Dollars In Thousands)

IV. COST OF CAPITAL

2013 Actual

| <u>Line</u> | <u>Item</u> | <u>Amount</u> | <u>% of Total</u> | <u>Cost</u> | <u>Weighted Cost</u> |
|-------------|------------------------------|---------------|-------------------|-------------|----------------------|
| 1 | Long-Term Debt ¹ | \$3,646,911 | 46.14% | 5.04% | 2.32% |
| 2 | Short-Term Debt | \$0 | 0.00% | 0.00% | 0.00% |
| 3 | Total Debt | \$3,646,911 | 46.14% | 5.04% | 2.32% |
| 4 | Preferred Stock ² | \$0 | 0.00% | 0.00% | 0.00% |
| 5 | Common Equity ² | \$4,257,356 | 53.86% | 7.73% | 4.16% |
| 6 | Total Equity | \$4,257,356 | 53.86% | | |
| 7 | Total Capital | \$7,904,267 | 100.00% | | 6.48% |

2013 Normalized

| <u>Line</u> | <u>Item</u> | <u>Amount</u> | <u>% of Total</u> | <u>Cost</u> | <u>Weighted Cost</u> |
|-------------|------------------------------|---------------|-------------------|-------------|----------------------|
| 8 | Long-Term Debt ¹ | \$3,646,911 | 46.14% | 5.04% | 2.32% |
| 9 | Short-Term Debt | \$0 | 0.00% | 0.00% | 0.00% |
| 10 | Total Debt | 3,646,911 | 46.14% | 5.04% | 2.32% |
| 11 | Preferred Stock ² | \$0 | 0.00% | | 0.00% |
| 12 | Common Equity ² | \$4,257,356 | 53.86% | 7.28% | 3.92% |
| 13 | Total Equity | \$4,257,356 | 53.86% | | |
| 14 | Total Capital | \$7,904,267 | 100.00% | | 6.24% |

¹ Long-term debt is a 13 month average

² Preferred stock and common stock are 13 month averages

PUBLIC DOCUMENT: TRADE SECRET DATA EXCISED

Northern States Power Company Electric Utility - South Dakota

(Dollars In Thousands)

V. REQUIRED RATE OF RETURN

2013 Based on authorized ROE

| <u>Line</u> | <u>Item</u> | <u>Amount</u> | <u>% of Total</u> | <u>Cost</u> | <u>Weighted Cost</u> |
|-------------|------------------------------|----------------------|-------------------|-------------|----------------------|
| | | [TRADE SECRET BEGINS | | | |
| 1 | Long-Term Debt ¹ | | | | |
| 2 | Short-Term Debt | | | | |
| 3 | Total Debt | | | | |
| 4 | Preferred Stock ² | | | | |
| 5 | Common Equity ² | | | | |
| 6 | Total Equity | | | | |
| 7 | Total Capital | | | | |
| | |]TRADE SECRET ENDS] | | | |

¹ Long-term debt is a 13 month average

² Preferred stock and common stock are 13 month averages

³ Confidential per Settlement in Docket EL12-046

PUBLIC DOCUMENT: TRADE SECRET DATA EXCISED

Northern States Power Company

Electric Utility - South Dakota

(Dollars In Thousands)

VI. REVENUE DEFICIENCY

2013 Based on authorized ROE

| <u>Line</u> | <u>Item</u> | Actual 2013 <u>S.D. Juris.</u> | Weather Normalized 2013 <u>S.D. Juris.</u> |
|-------------|---|--------------------------------------|---|
| | <u>Revenue Deficiency</u> | | |
| 1 | Total Operating Income | | |
| 2 | Total Average Rate Base | | |
| 3 | Require Operating Income (Rate Base * Required Return) | | |
| 4 | Operating Income | | |
| 5 | Operating Income Deficiency | | |
| 6 | Revenue Conversion Factor (1/(1-Composite Tax Rate)) | | |
| 7 | Revenue Deficiency (Income Deficiency * Conversion Factor) | | |

[TRADE SECRET BEGINS]

TRADE SECRET ENDS]

ROE = 7.73%

ADDENDUM

Page 1 of 5

**Northern States Power Company (SD)
Electric Utility - South Dakota Retail Jurisdiction
Cost of Service Study
2013 Actuals**

Summary Reports

June 2, 2014

Northern States Power Company (SD)
Electric Utility - South Dakota Retail Jurisdiction
Cost of Service Study
2013 Actuals
(Dollars in Thousands)

Rate Base Summary

| Line No. | NSPM - 01 Rate Base Schedule | Total | SD Electric | Other |
|----------|---|------------------|----------------|------------------|
| 1 | Plant Investment | 15,047,751 | 931,718 | 14,116,034 |
| 2 | Depreciation Reserve | <u>7,239,241</u> | <u>442,997</u> | <u>6,796,244</u> |
| 3 | Net Utility Plant | 7,808,510 | 488,720 | 7,319,789 |
| 4 | CWIP | 0 | 0 | 0 |
| 5 | Accumulated Deferred Taxes | 1,973,281 | 124,408 | 1,848,873 |
| 6 | DTA - NOL Average Balance | (291,810) | (18,265) | (273,545) |
| 7 | DTA - State Tax Credit Average Balance | (320) | 0 | (320) |
| 8 | <u>DTA - Federal Tax Credit Average Balance</u> | <u>(2,680)</u> | <u>(157)</u> | <u>(2,523)</u> |
| 9 | Total DTA Averages | (294,810) | (18,422) | (276,388) |
| 10 | Materials and Supplies | 138,074 | 8,453 | 129,621 |
| 11 | Fuel Inventory | 86,478 | 5,054 | 81,424 |
| 12 | Non-plant Assets and Liabilities | 26,226 | 1,461 | 24,766 |
| 13 | Customer Advances | (5,616) | (1,487) | (4,128) |
| 14 | Customer Deposits | (2,920) | (178) | (2,742) |
| 15 | Prepays and Other | 121,752 | 7,252 | 114,500 |
| 16 | <u>Regulatory Amortizations</u> | <u>10,369</u> | <u>5,086</u> | <u>5,283</u> |
| 17 | Total Other RB Items | 374,364 | 25,640 | 348,725 |
| 18 | Total Rate Base | 6,504,403 | 408,374 | 6,096,029 |

Income Statement Summary

| Line No. NSPM - 02 Income Statement Schedule | Total | SD Electric | Other |
|--|--|------------------|------------------|
| 1 | <u>Operating Revenues</u> | | |
| 2 | 3,323,385 | 199,423 | 3,123,962 |
| 3 | Interdepartmental | 680 | 0 |
| 4 | Transportation | 0 | 0 |
| 5 | Other Operating Rev - Non-Retail | <u>699,193</u> | <u>41,080</u> |
| 6 | Total Operating Revenues | 4,023,258 | 3,782,755 |
| 7 | | | |
| 8 | <u>Expenses</u> | | |
| 9 | Operating Expenses: | | |
| 10 | Fuel | 1,294,473 | 75,648 |
| 11 | Deferred Fuel | (261) | (15) |
| 12 | Variable IA Production Fuel | 20,676 | 1,208 |
| 13 | <u>Purchased Energy - Windsource</u> | <u>5,576</u> | <u>0</u> |
| 14 | Fuel & Purchased Energy Total | 1,320,464 | 76,841 |
| 15 | Production - Fixed | 415,324 | 25,435 |
| 16 | Production - Fixed IA Investment | 47,843 | 2,930 |
| 17 | Production - Variable | 131,426 | 7,680 |
| 18 | Production - Purchased Demand | 165,858 | 10,157 |
| 19 | <u>Production - Other</u> | <u>2,793</u> | <u>929</u> |
| 20 | Production Total | 763,243 | 47,132 |
| 21 | Regional Markets | 10,856 | 665 |
| 22 | Transmission IA | 68,398 | 4,189 |
| 23 | Transmission | 175,942 | 10,775 |
| 24 | Distribution | 121,107 | 8,068 |
| 25 | Customer Accounting | 55,250 | 3,789 |
| 26 | Customer Service & Information | 84,843 | 1,226 |
| 27 | Sales, Econ Dvlp & Other | 98 | 51 |
| 28 | Administrative & General | 233,309 | 14,620 |
| 29 | Total Operating Expenses | 2,833,510 | 167,355 |
| 30 | | | |
| 31 | Depreciation | 400,887 | 24,528 |
| 32 | Amortization | 15,210 | 327 |
| 33 | | | |
| 34 | <u>Taxes:</u> | | |
| 35 | Property Taxes | 153,141 | 8,183 |
| 36 | ITC Amortization | (1,493) | (71) |
| 37 | Deferred Taxes | 298,357 | 21,003 |
| 38 | Deferred Taxes - NOL | (119,436) | (9,039) |
| 39 | Less Deferred State Tax Credits | (640) | 0 |
| 40 | Less Deferred Federal Tax Credits | (5,360) | (313) |
| 41 | Deferred Income Tax & ITC | 171,429 | 11,580 |
| 42 | Payroll & Other Taxes | 33,585 | 2,053 |
| 43 | Total Taxes Other Than Income | 358,156 | 21,816 |
| 44 | Total State & Federal Income Taxes | 75 | (0) |
| 45 | | | |
| 46 | Total Taxes | 358,231 | 21,816 |
| 47 | Total Expenses | 3,607,838 | 214,026 |
| 48 | Total Operating Income | 415,421 | 26,477 |
| 49 | | 0 | 0 |
| 50 | AFDC Debt | 0 | 0 |
| 51 | AFDC Equity | 0 | 0 |
| 52 | | 0 | 0 |
| 53 | Net Income | 415,421 | 26,477 |

Income Tax Summary

| Line No. | NSPM - 03 Income Tax Schedule | Total | SD Electric | Other |
|----------|--|----------------|---------------|----------------|
| 1 | <u>Income Before Taxes</u> | | | |
| 2 | Total Operating Revenues | 4,023,258 | 240,504 | 3,782,755 |
| 3 | less: Total Operating Expenses | 2,833,510 | 167,355 | 2,666,155 |
| 4 | Book Depreciation | 400,887 | 24,528 | 376,359 |
| 5 | Amortization | 15,210 | 327 | 14,883 |
| 6 | <u>Taxes Other than Income</u> | <u>358,156</u> | <u>21,816</u> | <u>336,340</u> |
| 7 | Total Before Tax Book Income | 415,496 | 26,477 | 389,019 |
| 8 | | | | |
| 9 | <u>Tax Additions</u> | | | |
| 10 | Book Depreciation | 400,887 | 24,528 | 376,359 |
| 11 | Deferred Income Taxes and ITC | 171,429 | 11,580 | 159,849 |
| 12 | Nuclear Fuel Burn (ex D&D) | 108,436 | 6,641 | 101,795 |
| 13 | Nuclear Outage Accounting | 71,482 | 4,283 | 67,200 |
| 14 | Avoided Tax Interest | 32,049 | 1,987 | 30,062 |
| 15 | Other Book Additions | (10,327) | | (10,327) |
| 16 | Total Tax Additions | 773,956 | 49,019 | 724,937 |
| 17 | | | | |
| 18 | Tax Deductions | | | |
| 19 | Total Rate Base | 6,504,403 | 408,374 | 6,096,029 |
| 20 | Weighted Cost of Debt | 4.61% | 2.32% | 2.29% |
| 21 | Debt Interest Expense (Line 19 x Line 20) | 149,073 | 9,474 | 139,599 |
| 22 | Nuclear Outage Accounting | 115,611 | 6,940 | 108,670 |
| 23 | Tax Depreciation and Removals | 1,160,428 | 77,800 | 1,082,628 |
| 24 | Federal Sec 199 Production Deduction | 39 | | 39 |
| 25 | NOL Generated (absolute value) | (465,852) | (33,708) | (432,144) |
| 26 | NOL Generated | 173,444 | 11,579 | 161,865 |
| 27 | Other Tax / Book Timing Differences | 56,487 | 3,412 | 53,075 |
| 28 | Total Tax Deductions | 1,189,229 | 75,496 | 1,113,733 |
| <hr/> | | | | |
| 1 | | | | |
| 2 | State Taxes | | | |
| 3 | State Taxable Income | 223 | | 223 |
| 4 | State Income Tax Rate | 4.53% | | 4.53% |
| 5 | State Taxes before Credits (Line 31 x Line | 0 | | 0 |
| 6 | Less State Tax Credits | (640) | | (640) |
| 7 | Deferred State Tax Credits due to NOL | 640 | | 640 |
| 8 | Total State Income Taxes | 0 | | 0 |
| 9 | | | | |
| 10 | Federal Taxes | | | |
| 11 | Federal Taxable Income | 223 | | 223 |
| 12 | Federal Income Tax Rate | 70.00% | 35.00% | 35.00% |
| 13 | Federal Tax before Credits (Line 39 x Line | 78 | | 78 |
| 14 | Less Federal Tax Credits | (5,362) | (313) | (5,049) |
| 15 | Deferred Federal Tax Credits due to NOL | 5,360 | 313 | 5,046 |
| 16 | Total Federal Income Taxes | 75 | | 75 |
| 17 | | | | |
| 18 | Total Taxes | | | |
| 19 | Total Federal and State Income Taxes | 75 | | 75 |

PUBLIC DOCUMENT: TRADE SECRET DATA EXCISED

Northern States Power Company (SD)
 Electric Utility - South Dakota Retail Jurisdiction
 Cost of Service Study
 2013 Actuals

ADDENDUM
 Page 5 of 5

Revenue Requirement & Return Summary

(Dollars in Thousands)

| Line No. | NSPM - 04 Revenue Deficiency Schedule | Total | SD Electric | Other |
|----------|--|-----------|----------------------|--------------------|
| 1 | Weighted Cost of Capital | | | |
| 2 | Cost of Short Term Debt | | [TRADE SECRET BEGINS | |
| 3 | Cost of Long Term Debt | | | |
| 4 | Cost of Preferred Stock | | | |
| 5 | Cost of Common Equity | | | |
| 6 | Ratio of Short Term Debt | | | |
| 7 | Ratio of Long Term Debt | | | |
| 8 | Ratio of Preferred Stock | | | |
| 9 | Ratio of Common Equity | | | TRADE SECRET ENDS] |
| 10 | Weighted Cost of STD | | | |
| 11 | Weighted Cost of LTD | | 2.32% | |
| 12 | Weighted Cost of Debt | | 2.32% | |
| 13 | Weighted Cost of Preferred Stock | | [TRADE SECRET BEGINS | |
| 14 | Weighted Cost of Equity | | | TRADE SECRET ENDS] |
| 15 | Required Rate Of Return | | 7.30% | |
| 16 | | | | |
| 17 | Composite Income Tax Rate | | | |
| 18 | State Tax Rate | | | |
| 19 | Federal Statutory Tax Rate | | 35.00% | |
| 20 | Federal Effective Tax Rate | | 35.00% | |
| 21 | Composite Tax Rate | | 35.00% | |
| 22 | | | | |
| 23 | Rate of Return (ROR) | | | |
| 24 | Total Operating Income | 415,421 | 26,477 | 388,944 |
| 25 | Total Rate Base | 6,504,403 | 408,374 | 6,096,029 |
| 26 | ROR (Operating Income / Rate Base) | 6.39% | 6.48% | 6.38% |
| 27 | | | | |
| 28 | Return on Equity (ROE) | | | |
| 29 | Total Operating Income | 415,421 | 26,477 | 388,944 |
| 30 | Debt Interest (Rate Base * Weighted Cost of Debt) | (149,073) | (9,474) | (139,599) |
| 31 | Earnings Available for Common | 266,347 | 17,003 | 249,344 |
| 32 | Equity Rate Base (Rate Base * Equity Ratio) | 3,430,729 | 219,950 | 3,210,779 |
| 33 | ROE (earnings for Common/Equity Rate Base) | 7.76% | 7.73% | 7.77% |
| 34 | | | | |
| 35 | Revenue Deficiency | | | |
| 36 | Required Operating Income (Rate Base * Required Return) | 485,037 | 29,811 | 455,225 |
| 37 | Total Operating Income | 415,421 | 26,477 | 388,944 |
| 38 | Operating Income Deficiency | 69,616 | 3,334 | 66,282 |
| 39 | | | | |
| 40 | Revenue Conversion Factor (1/(1-Composite Tax Rate)) | 3.1499 | 1.5385 | 1.6115 |
| 41 | Revenue Deficiency (Income Deficiency * Conversion Factor) | 118,052 | 5,129 | 112,923 |
| 42 | | | | |
| 43 | Total Revenue Requirements | | | |
| 44 | Total Retail Revenues | 3,324,065 | 199,423 | 3,124,642 |
| 45 | Revenue Deficiency | 118,052 | 5,129 | 112,923 |
| 46 | Total Revenue Requirements | 3,442,117 | 204,553 | 3,237,565 |
| 47 | | | | |